

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: PEOPLES NATURAL GAS COMPANY, DIVISION OF UTILICORP UNITED INC.	DOCKET NO. TF-00-253
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ORDER DIRECTING FILING OF REVISED PROPOSED TARIFFS

(Issued March 12, 2002)

PROCEDURAL BACKGROUND

On October 5, 2000, Peoples Natural Gas Company, Division of UtiliCorp United Inc. (Peoples), filed a proposed tariff with the Utilities Board (Board) designed to replace the current Firm Transportation Rate Schedule and Interruptible Rate Schedule with Large Volume Joint and Small Volume Joint Transportation Rate Schedules. Peoples stated that the proposed tariff would allow joint transportation service, whereby a customer would be able to select firm service, interruptible service, or a combination of firm and interruptible services. In addition, Peoples proposed to reduce to a nominal amount the charge for returning from transportation service to system supply, as well as a new aggregation service. The tariff also reformatted the balancing and scheduling charges section of Peoples' tariffs. The proposed tariff was identified as Docket No. TF-00-253.

On October 23, 2000, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the proposed tariff. Peoples filed revisions to the proposed tariffs on October 27, 2000. The Board on November 3,

2000, docketed the proposed tariff for further review. On November 3, 2000, Peoples filed a response to Consumer Advocate's objection. On December 15, 2000, Consumer Advocate withdrew its objections, stating that the objections mainly involved the small volume transportation tariffs being considered in Docket No. NOI-98-3 and the proposed tariffs in this docket will be superseded by the small volume gas tariffs that will be approved.

On September 10, 2001, Peoples filed another revision to the proposed tariff. On September 28, 2001, Consumer Advocate filed an objection to the revisions to the proposed tariff. On November 9, 2001, Peoples filed a final revision to the proposed tariff. On December 5, 2001, Consumer Advocate filed a response and withdrawal of its objection. Consumer Advocate stated that the final revisions to the proposed tariff were the result of discussions between Peoples, Board staff, and Consumer Advocate, and Consumer Advocate stated that it was withdrawing its objection on the basis that Peoples will abide by the understandings and interpretations concerning the return of small volume customers to system supply set out in the withdrawal.

Since the filing of the proposed tariff in October 2000, the proposed tariff has been revised significantly through discussions among Consumer Advocate, Peoples, and Board staff. In this order the Board will address only proposed changes to the current tariff that are found in the final revisions filed on November 9, 2001. The changes are extensive since Peoples is replacing the entire existing transportation tariff. The Board will not specifically address those changes that are for clarification. The substantive changes will be discussed by issue below.

PROPOSED TARIFF REVISIONS

1. Small and Large Volume Joint Service

Peoples' current tariff is structured into two classifications, Firm and Interruptible Transportation. This structure does not allow for a combined Firm and Interruptible transportation service. Peoples proposes to change this distinction to Large and Small Volume Joint Services. The effect of this change would be to clearly offer firm, interruptible, or a combination of these services to large and small volume transportation customers. The proposed tariff changes addressed in this order relate to both the proposed large volume and the small volume proposals, unless otherwise indicated.

The small volume customers that are the subject of this proposed tariff revision are the customers who are currently taking service from Peoples as small volume transportation customers. Peoples estimates that currently approximately 168 customers are transporting, of which approximately 75 are considered small volume. These 75 customers have apparently found it economically feasible to transport under Peoples' current tariff structure.

The proposed revisions are not intended to address the issues under consideration in the small volume gas notice of inquiry, Docket No. NOI-98-3. Peoples indicated that when the Board makes any final decision on small volume gas transportation issues in Docket No. NOI-98-3, it would incorporate those decisions into the small volume tariff.

The Board will approve this section of the proposed tariff. The effect of offering Small and Large Volume Joint Service will give transportation customers more flexibility.

2. Threshold Limits for Service

The proposed tariff effectively provides that the Small Volume Transportation Rate Schedule would be available only to small volume, non-residential, customers whose normal gas requirement does not exceed 199 Mcf on any day. The proposed Large Volume Transportation rate schedule effectively is available only to non-residential customers, who meet usage criteria of 200 Mcf per meter per day at least once during the year. Consumer Advocate supports the exclusion of residential customers from this service.

The Board will approve this part of the proposed tariff. Peoples aligns the usage levels in this proposal with its currently effective tariff. Any realignment that may be necessary as a result of changes required from the small volume gas docket will be resolved in that docket.

3. Reconnection Fee

The current tariff includes a reconnection charge of \$200 for customers who elect transportation service (without system supply reserve service) who wish to return to sales service. Peoples propose to change this charge to a nominal fee of \$10 for both small and large volume customers. Iowa natural gas utilities are required to have a reconnection charge in their tariffs pursuant to 199 IAC 19.13(4)"c." Consumer Advocate sought clarification as to whether the proposed \$10

reconnection charge was cost based. Peoples indicated that that there is very little, if any, cost involved in returning a customer to system supply.

The Board will be adopting a reconnection fee of \$5 in Docket No. NOI-98-3 for small volume gas customers. This will be required for all natural gas utilities. Since Peoples states that there is very little cost involved in returning a customer to system supply, the Board finds that the \$5 reconnection charge should be implemented in these tariffs.

4. Minimum Term of Service/Return to Sales Service

Peoples feels it needs to have specific requirements stated in its tariff concerning the minimum term of service. The final revision to the proposed tariff provides that any customer may transfer to transportation service with one-month advance notice (and the installation of any required telemetry equipment). Large volume firm customers would be required to remain on transportation service for 12 months. Small volume customers would be required to provide two-month's notice before returning to sales service during the period November through March. Small and large volume seasonal non-winter peaking customers would be allowed to return to system sales after providing one-month written notice and would not be required to stay on transportation service for any specific amount of time.

Consumer Advocate indicated that the two-month requirement for small volume customers to remain on transportation service was acceptable with the exception stated by Peoples, "It is Peoples desire to enforce all of its tariffs uniformly. But uniformly may also mean making exceptions when warranted. It is certainly Peoples intent to enforce the minimum term of service, but if a customer is forced to

return to system service and capacity is available, any alternative penalty above the reconnect charge would seem punitive in what would obviously already be a strained situation."

The proposed tariff indicates that transporters may only transfer to firm or interruptible sales service if Peoples is able to arrange adequate additional daily firm capacity and commodity supplies to meet the needs imposed on its system by the customer without jeopardizing system reliability or increasing costs for its own customers. Consumer Advocate interprets this as requiring Peoples to take reasonable steps to accommodate small and large volume customer requests to return to system service. Further, if a transportation customer requires system supply service due to a service failure by a competitive natural gas provider (CNGP), Peoples will waive any applicable minimum service term in order to facilitate the customers' return to system supply service. In addition, any identifiable additional costs associated with a transportation customer's return to system supply service will be allocated to the customer causing such cost.

The Board will approve this part of the proposed tariff. This proposal will provide an adequate framework pending the Board's decisions concerning obligation to serve and returning to system service in the small volume gas Docket No. NOI-98-3.

5. System Supply Reserve Service

System Supply Reserve Service or Backup Service is a service currently offered in Peoples' tariff, as required by 199 IAC 19.13(3). The changes that are proposed in this filing include specifying a minimum six-month term of service and

indicating that revenues from this service will be credited to system gas costs through the purchased gas adjustment (PGA) mechanism. The current tariff does not include a minimum term of service. Peoples had originally proposed to eliminate this service, but reinserted it based on discussions concerning the rule requirement. No customer has ever used this service.

The Board will approve this part of the proposed tariff. Considering the pipeline commitments Peoples would have to make in order to provide this service, it is appropriate to require customers to maintain the service for a specific amount of time.

6. Monthly Customer Charge

Currently, the monthly customer charge for transportation customers is equal to the applicable sales service customer charge plus \$150. The proposed tariff language includes the \$150 charge on the newly proposed tariff sheets but does not change the reference to the charge in the current rider. Consumer Advocate pointed out, that for this charge to remain, the same the reference to the charge on the rider tariff pages needs to be revised. Peoples agreed with Consumer Advocate and made the revision. The revision also clarifies that the \$150 will be charged per facility rather than per meter.

The Board will approve this part of the proposed tariff.

7. Incremental On-Site Plant Investments

The final revision provides that customers who elect transportation service are responsible for telemetry costs. Peoples proposes to offer customers interest free

financing of telemetry costs for 90 days and financing with interest for periods in excess of 90 days up to 12 months, on a non-regulated basis.

The Board will approve this provision. It is not necessary for this non-regulated financing option to be in a regulated tariff, but its presence in the tariff provides potential transportation customers with notice that Peoples is offering this alternative. Customers would then have the option of choosing to take advantage of this financing option, pursue another financing option, or paying for the costs up front.

8. New Aggregation Service

Peoples proposes to offer a new optional aggregation service. This service would allow a marketer to combine a group of transportation customers for aggregation purposes if they meet the following three criteria. Customers to be grouped together must 1) be subject to the same balancing provisions, 2) be located on the same interstate pipeline system, and 3) be within the same interstate pipeline operational zone. If the service is purchased, the aggregated group would be treated as one customer for purposes of calculating the daily scheduling penalties and monthly imbalances. The cost of the aggregation service is \$.04 per Mcf of gas delivered to the aggregated group. Peoples provided a description of this new service in a letter sent to all of its current transportation customers.

Peoples stated that until an aggregation program is approved and operating in Iowa, Peoples will not know participation levels or costs for the new program. Consumer Advocate recommends that the costs and revenues from this service be reported to the Board on an annual basis to permit a determination of the

reasonableness of this new aggregation service rate. Peoples agreed to provide this information annually.

The Board will approve this part of the proposed tariff with some changes. In the past when companies provided new transportation services between rate cases, revenues from those services were credited to the PGA. Peoples states that it believes the costs are related to operation and management, rather than the cost of gas and that the revenues should not therefore be credited to the PGA. The Board finds that Peoples is able to offer this optional service because of the presence of the PGA. Therefore any revenue derived from this service will be credited to the PGA. The Board also finds that Peoples will be directed to file actual cost and revenue data after one year, including any data showing cost savings. If this cost information supports Peoples' position, Peoples may request the Board modify its decision.

9. Human Needs Customers

The proposed tariff includes the classification of human needs customer. These customers are defined as health care facilities, education institutions and private governmental agencies, and organizations that provide public and/or public assistance services. The proposed tariff requires human needs customers to provide an affidavit indicating that they will maintain both the proven capability and adequate alternate fuel supplies to continue operations should interruption occur. Further, at Peoples' request they must demonstrate that such capacity and adequate fuel supplies are available.

The Board will approve this provision in the proposed tariff. These additional requirements for human needs customers will provide additional assurance that these customers will be protected if they choose interruptible service.

10. Capacity Assignment

The proposed revision includes a provision for capacity and supply assignment to large volume firm customers who convert to transportation service. This provision will protect Peoples from incurring stranded costs related to assets Peoples purchased to serve specific customers. If the associated assets can be used to serve system customers, they will not be assigned. The maximum period of time customers may be required to pay for assigned supply and capacity costs is one year.

The Board will approve this part of the proposed tariff. It is appropriate for transportation customers to pay for stranded costs incurred by the utility on its system for a specified amount of time. The one-year maximum period provision will give Peoples time to shed the stranded costs. If Peoples is relieved of those costs in a shorter period of time, the customers will be released from the financial obligation.

11. Capacity Options

Peoples' proposed tariff sets out customer options for obtaining interstate pipeline capacity. These options include purchasing the capacity either from Peoples (at the rate on Peoples' tariff) or obtaining it from a third-party non-regulated supplier. If the customer elects to purchase firm capacity from a third-party, Peoples requires the customer to provide an affidavit signed by the customer and supplier.

The Board will approve this part of the proposed tariff. This provision formalizes Peoples general practice concerning capacity for transportation customers. Having this provision detailed in the tariff is beneficial for customers so they will be aware of their various options.

12. Nomination Provisions

Peoples proposes several changes to the nomination provisions of its current tariff. Customers are currently required to nominate on a daily basis the specific volume of gas to be delivered to Peoples' system on the customer's behalf. In this proposal Peoples changes notification deadlines for first of the month nominations from 9 a.m. five working days prior to the first of the month to 11:30 a.m. one day prior to the first of the month.

Under the current tariff, customers have until 9 a.m. to notify the company of its nomination for the next day. In this proposal, customers will have until 5 p.m. to notify the company of its nomination for the next day. Further, confirmed pipeline nominations will be accepted on a best effort basis on the current day. Nominations are to be made via Peoples' internet-enabled electronic bulletin board known as Gas Track Online.

The Board will approve this provision in the proposed tariff. These changes clarify and formalize the terms and conditions of Peoples' nomination procedures.

13. Daily Scheduling Charges

Peoples proposes minor modifications to the daily scheduling charges portion of the current tariff. The changes include a new format wherein the charges are set out in table format rather than text blocks. The two changes to the penalty rates are

for the purpose of matching the Peoples tariff penalty provisions with the interstate pipeline penalty provisions.

The Board will approve this part of the proposed tariff. It is common practice for the utility transportation tariff penalty provisions to mirror the provisions of the interstate pipeline.

14. Monthly Imbalances

Under current tariffs, transportation customers are required to provide Peoples with information indicating the amount of gas scheduled for delivery to Peoples' system. They are also required to balance their consumption against the volume of gas delivered. When doing so, customers are given some leeway. The amount of leeway is the allowable imbalance level. Peoples proposes to change the allowable imbalance level for monthly imbalances from 0-2 percent to 0-3 percent.

In the proposed tariff, monthly imbalances will be cashed out at the end of the billing period. The current tariff offers customers the choice of cashing out the monthly imbalance or adjusting the next month's nominations. This means that positive or negative monthly imbalances up to 3 percent will be cashed out at 100 percent of the index price.

Peoples has simplified the schedule to be used to cashout monthly imbalances. In the current tariff there are two different cashout levels, one for customers served by Northern Natural Gas Company (NNG) and one for customers served by Natural Gas Pipe Line (NGPL). The proposed tariff includes one cashout schedule to be used for both pipelines. The schedule is based on a market index price (MIP), which is defined in the tariff. For imbalances exceeding the allowable

3 percent level for over and under deliveries, the MIP is adjusted up or down by up to 40 percent.

The Board will approve this provision in the proposed tariff. Apparently Peoples has determined that it can appropriately maintain system integrity while offering customers a little more latitude concerning the allowable levels for monthly imbalances without penalty. The use of one cashout schedule for customers served by both interstate pipelines is appropriate now that Peoples uses a single PGA for NNG and NGPL systems. Further, the new cash out schedule for monthly imbalances appears to be workable in that it will encourage good performance by the transportation customers. These changes will help Peoples maintain system integrity. If transportation customers operate appropriately, they will not be penalized.

15. Joint Affidavit

Peoples includes in the proposed tariff a new provision requiring customers who choose to purchase interstate pipeline capacity from a third-party non-regulated supplier rather than through Peoples to provide Peoples with a joint affidavit. The affidavit is to be signed by the customer and the third-party supplier specifying the amount of interstate pipeline capacity purchased.

The Board considers it to be more appropriate for a general provision of this nature to appear in a contract rather than in a tariff. MidAmerican Energy Company has a similar tariff provision and uses the following language: "Transportation will not commence until the Customer files with the Company a completed Service Request

Form and all other applicable documentation." Peoples shall revise this provision so that the statement will be of a more general nature.

16. Transportation Contacts

In the proposed tariff, Peoples has removed the actual transportation contracts from the tariff. Although these contracts were previously incorporated in the tariff, every future change to these agreements would require a tariff change and would thus place an unnecessary burden on all parties. However, these contracts should be available to transportation customers for their review. Peoples proposes to provide current versions of all transportation contracts and related forms on its transportations services website.

In addition, Peoples has agreed with Consumer Advocate's proposal that the Transportation Service Agreements for small volume customers will clearly disclose any conditions applicable for a small volume customers to return to system supply service.

The Board will approve this part of the proposed tariff. Customers will have more accurate and timely information available to them via Peoples' website than from tariff provisions that may be out of date. Peoples should include a reference to the website availability of the contract in the tariff and Peoples should also provide a blank copy of their contract to any customer who requests it.

17. Maximum Daily Quantity (MDQ)

The proposed tariff provides that all small volume customers switching to transportation service will be assigned a Maximum Daily Quantity (MDQ) level. The purpose of the MDQ is to establish the volume of gas a customer uses on peak days.

Customers can nominate more or less than their MDQ with the exception that at times when either Peoples or the interstate pipeline calls an operational flow order or a critical day order. Operational flow and critical day orders are tools the utility and interstate pipelines use when necessary to protect the operational integrity of the system, as that relates to the amount of gas delivered on behalf of customers. When invoked, small volume customers are required to nominate and deliver their MDQ volume of natural gas established according to the tariff. Peoples may invoke the MDQ delivery requirement for a maximum of 20 days during the months of November through March.

The Board is not aware of any similar provisions in other utility transportation tariffs. Peoples indicated that it needs a tool like this in order to protect the integrity of the system. Peoples has agreed to limit this provision to a maximum of ten days for the period from November through March. Further, Peoples shall be directed to file a brief report each April annually for two years detailing its use of this provision. The report should include how many days the MDQ delivery requirement has been invoked on a per customer basis.

18. Customer Notification of Tariff Changes

On September 25, 2000, Peoples sent a letter and the proposed tariff changes to its transportation customers. Peoples filed a copy of this letter with the Board on October 27, 2000. In the letter, customers were asked to contact their sales representative if they had any questions, comments, or concerns. By telephone confirmation on December 27, 2000, Peoples indicated that it had received no

questions or concerns to date. Peoples further indicated that upon approval of the proposed tariffs, it would again provide notice of these tariff changes to customers.

It is appropriate for Peoples to notify the transportation customers of any approved changes to the transportation tariff. Peoples will be directed to notify customers either by letter or by bill insert. The notice should fully explain how the revised tariff impacts any rights and obligations of the transportation customers. Peoples should provide a copy of the notice to the Board.

19. Certification Requirement

The final revision adds the requirement that a CNGP must hold a certificate from the Board before it may serve Iowa customers. This requirement is consistent with 199 IAC 19.14(2). The Board will approve this provision.

20. Miscellaneous Corrections

Consumer Advocate pointed out two parts of the original proposed tariff that should be changed. First, on proposed tariff pages 60(a) and 61(a), paragraph 4B, Peoples originally deleted the word "reasonably" from the following sentence: "The Customer shall execute a written contract for transportation services pursuant to this rate schedule containing such terms and conditions as Peoples may require." The final revision includes the word "reasonably" before the word "may."

Second, Consumer Advocate pointed out that the statement contained in paragraph E of proposed sheet no. 60A, relating to small volume joint customers, reads: "Peoples' sale refunds applicable to the period when gas is transported will not be made to transportation customers." Consumer Advocate suggested that the provision should be amended to provide an exception for customers who received

system supply service during the period relating to the refund. Peoples indicated that it would provide for this exception. The final revision includes this exception.

The Board will approve these two changes.

CONCLUSION

The Board is rejecting the proposed tariff with the final revisions filed by Peoples on November 9, 2001, pending modifications required by the Board concerning "New Aggregation Service," "Joint Affidavit," and "Maximum Daily Quantity (MDQ)." The proposed tariff will not become effective until approval of a revised proposed tariff that complies with this order. Once approved, the tariffs will be in effect for service to small volume customers on Peoples' system until the Board has approved permanent small volume transportation tariffs filed to comply with the Board's order in Docket No. NOI-98-3. This order also contains requirements concerning notice to customers and the filing of reports with which Peoples will be required to comply.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariff filed by Peoples Natural Gas Company, Division of UtiliCorp United Inc., on October 5, 2000, as revised on November 9, 2001, is rejected. Proposed tariffs consistent with this order shall be filed on or before March 20, 2002.

2. Peoples Natural Gas Company, Division of UtiliCorp United Inc., shall file a report in April 2003 and 2004 detailing how many days the maximum daily

quantity tariff provision has been invoked on a per customer basis and a report annually showing the actual cost and revenue data for the optional aggregation service.

3. Peoples Natural Gas Company, Division of UtiliCorp. United Inc., shall send notice to all affected customers of the tariff revisions approved in this order.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 12th day of March, 2002.